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Sustainability in the EU Commodity Markets

Report Categories:

Bio-Fuels

Livestock and Products

Oilseeds and Products

Trade Policy Monitoring

Climate Change

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Report Highlights:

During the last decade, the European retail sector has increasingly sourced sustainably produced food products. At the same time, food processors stepped into this market and increased their sourcing for sustainably produced raw materials. In this report, the movement towards sustainability in three commodity markets is briefly outlined, namely the biofuels market, the soya market and the market for meat products.

During the last decade, the European retail sector has increasingly sourced food products which are either produced sustainably or obtained in a sustainable manner. In the Netherlands for instance, market leader Albert Heijn plans to have all their private label products produced and labeled sustainable by the end of 2015. At the same time, food processors stepped into this market and increased their sourcing for sustainably produced raw materials. Many other private companies in the agricultural and food sector have also embraced sustainability as part of their vision and strategy. On the one hand, this policy is based on marketing their business as green to the public. But their anticipation is also that in a business environment with scarcity of raw materials the most sustainable is also the most economical and competitive. Nevertheless, the development started in the sectors in which pressure by NGOs and the public was the strongest, namely the fishery sector, the forestry sector and the palm oil sector. To counter negative campaigns, these sectors formulated voluntary sustainability programs for their products.

Such programs are developed through a multi-stakeholders process, or round tables, in which governments, NGOs and the private sector take part. Sustainability programs focus on the land used for production, greenhouse gas savings, social issues, and the monitoring of the production chain. The programs are audited by an independent auditor. The goal of these programs is to make sustainably produced food products mainstream in the market. This is opposite of the organics sector, for which a niche market has been created. The general opinion of the stakeholders is that the most effective approach to increase the sustainability of the world food production is to improve the efficiency of the least efficient and most damaging farm practices. These practices are often applied in developing countries, in particular by creating new farmland. Also from a commercial point of view, the most prominent opportunities for profit maximization exist in improving these least efficient farming practices. As a result, the programs which have been developed are focused on preventing agricultural practices which have a negative socio-environmental impact in developing countries in mainly the Southern Hemisphere. In the United States, farming has already reached a high level of efficiency. In addition, a wide range of conservation programs have been enforced. U.S. agricultural and food products could therefore be marketed as sustainably produced.

In this report, the movement towards sustainability in three commodity markets is briefly outlined, namely the biofuels market, the soya market and the market for meat products. In the EU, these three markets are important for U.S. agricultural exports (see table below).

Product	EU Import 2011 (million US\$)	Share U.S. 2011 (million US\$)	Legislation / Programs
Biofuels and feedstocks -Bioethanol ^(a) -Biodiesel -Waste fats -Palm oil	6,188 1,373 3,510 305 1,000	2,013 993 812 208 0	Agreements and programs in compliance with the RED ^c .
Soya and derivates (b)	16,810	1,457	Voluntary programs (ISCC ^d , RTRS ^e). To be required by the market place.
Beef	2,354	180	GRTSB ^f

Source: GTIS. (a) Includes ETBE. (b) Includes soybeans, meal and oil. (c) Renewable Energy Directive. (d) International Sustainability & Carbon Certification. (e) Roundtable for Responsible Soy. (f) Global Roundtable for Sustainable Beef.

Biofuels

In 2011, the EU imported about US\$ 6.2 billion of biofuels and related feedstocks (see table above). The United States has a share of about a third of these imports or US\$ 2.0 billion. For biofuels to be eligible for EU financial supports and count towards the ten percent minimum target for renewable energy consumed in transport in 2020 they must comply with the sustainability criteria that are provided in the Renewable Energy Directive (RED). These sustainability criteria have to be met by all biofuels, biodiesel and bioethanol and their feedstocks, whether produced within the EU or imported outside the EU (see EU Biofuels Annual, GAIN Report NL1013). During 2011, most EU MS transposed the RED in their national legislation (see GAIN Report E60073). There are three different ways for biofuels to be certified as sustainable as provided in the RED. Those three options are; a bilateral or multilateral agreement, voluntary programs, or an agreement with a specific Member State.

-Bilateral or multilateral agreement. The U.S. government has inquired about a bilateral agreement with the European Commission (EC) that would recognize U.S. conservation and environmental protection laws as equivalent to the sustainability requirements in the RED.

-Voluntary programs. In July 2011, the EC acknowledged seven voluntary schemes to be in compliance with the RED, of which the International Sustainability & Carbon Certification (ISCC) and the Roundtable for Responsible Soy (RTRS).

-Agreement with a Member State. As EU Member States are not obliged to accept systems approved by other Member States, it is in general more efficient to submit a program to the EC for approval. However, for a more rapid approval, 8-12 weeks, the GONL developed a method for reviewing voluntary sustainability programs at a national level (GAIN Report NL1028).

Soya and Derivates

The EU imported about US\$ 16.8 billion of soya and derived products, mostly beans and meal in 2011. With a value of nearly US\$ 1.5 billion, the United States has a share of about 9 percent in this trade. In the same year, the EU domestic use in volume of soybeans, meal and oil totaled 35.2 MMT. Of this volume, about 1 MMT of soybean oil was used as feedstock for biodiesel production, which is less than 3 percent on the total use (EU Oilseed Annual and EU Biofuels Annual). The main markets for soya are feed (90%) and food (7%). In contrast to the biofuels market, for the feed and food market there is no legislation in place to restrict the use to sustainably produced soya. In these markets, however, the market itself, feed compounders and feed processors, increasingly demand sustainably produced soya. On September 6, 2011, the Dutch crushers, processors and feed compounders announced to source only sustainably produced soybeans as from 2015 (GAIN Report NL1022). The Netherlands is the second largest importer of soy and soy derivatives in the world.

The two main voluntary schemes in place for soya are the ISCC and the RTRS program. While the ISCC system is based on the RED, the RTRS is a standard developed through a multi-stakeholders process and initiated by the food sector. Despite both systems are in compliance with the RED, they are not exchangeable with each other yet. Currently, work is being conducted on mutual recognition.

The RTRS program is in its beginning stage and has a variety of deficiencies (GAIN Report NL1024). The shortcomings are reportedly not only the extra costs for inspection, administration and logistics, and the diversity of the schemes, but also the criteria itself which lay an additional burden on the farmer. However, despite the complications, the sector believes that they must conform to the market's demand and comply with sustainability criteria. Currently, eleven producers are registered for the RTRS program, five in Argentina, five in Brazil, and one in Paraguay, with a total area of 149,000 hectares and a volume of nearly 425,000 MT, which is close to the import goal which the Dutch sector set for the year 2012; 500,000 MT.

Information about the ISCC program can be found in GAIN Report GM 1008, FAQs on Biofuel Sustainability Certification in Germany. This report provides answers to some frequently asked questions regarding sustainability certification for biofuels and their feedstock.

Livestock Products

In 2011, the EU imported about US\$ 2.4 billion of beef from mainly South America. A growing share is sourced from the United States through the High Quality Beef Quota. Last year, this trade had a value of about US\$ 180 million. EU imports of other meat, pork and poultry, from the United States are negligible due to veterinary restrictions. An important difference with the soya market is that the majority of beef consumed in the EU is domestically produced, about 96 percent.

Both the EC and national governments have implemented a wide range of regulations related to animal welfare and protection of the environment. Despite pledges from the agricultural sector, so far governments do not support provisions which would require imports to also meet these EU and national laws. Despite a large percentage of intensive livestock farms do not yet comply with these environmental and animal welfare requirements, the sector is working on even higher standards. The EU livestock sector is developing a strategy to market their production as sustainable and animal friendly in order to counter negative media attention and differentiate themselves from competitive imports. Investments in sustainable production are further demanded by the retailers. For instance, Dutch retailers will only sell sustainably produced meat as from 2020. On an EU level, the Sustainable Agriculture Initiative (SAI) is in the process of establishing a 'Sustainable Beef Production Working Group' with all the major European meat processors. While in the Netherlands, the livestock sector installed a commission to formulate a vision to improve the sustainability and viability of the sector.

On an international level, the first steps have been made in developing a sustainability program for beef at the Global Roundtable for Sustainable Beef (GRTSB). Currently, the Steering Committee is working on the next steps to continue the Roundtable discussions. Partners are: Cargill, JBS, McDonald's, Rainforest Alliance, Solidaridad, Walmart and WWF. Over the next four years, the Dutch Ministry of Foreign Affairs will provide Euro 2 million in financial support to projects of the GRTSB to create continuous improvement in the sustainability of the global beef production supply chain.

FAS The Hague Comments:

For years the EU has attempted to mandate sustainability on the global scale. It has made several attempts in the multilateral forum whether under the umbrella of multi-functionality, an environmental pillar, and under socioeconomic concerns. Repeatedly these initiatives have failed to gain traction, but now the argument has moved from the international political arena into the EU market place on a significant scale. Sustainability for feed and food may not be legislated by the politicians but it will be mandated by the private sector. With this strategy, food processors and retailers avoid being associated with deforestation and depletion of oceans and farm land, and are able promote their produce as green. It is factored into their business and marketing plans, and it is reinforced with significant investment throughout the production chain. It is not just a niche market.